CHROMCRAFT REVINGTON INC
Form 10-Q
November 13, 2001

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 29, 2001

or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 1-13970

CHROMCRAFT REVINGTON, INC.
(Exact name of registrant as specified in its charter)

Delaware	35-1848094
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

1100 North Washington Street, Delphi, IN 46923
(Address, including zip code, of registrant's principal executive offices)

(765) 564-3500
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

The number of shares outstanding for each of the registrant's classes of common stock, as of the latest practicable date:

Common Stock, $.01 par value -- 9,573,248 shares as of October 31, 2001

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Part I. Financial Information

Item 1. Financial Statements

Condensed Consolidated Statements of Earnings (unaudited)
Chromcraft Revington, Inc.
(In thousands, except per share data)

	Three Months Ended		Nine Months Ended	
	Sept. 29, 2001	Sept. 30, 2000	Sept. 29, 2001	Sept 20
Sales	$ 52,282	$ 62,062	$ 166,552	$ 20
Cost of sales	41,251	48,012	129,744	15
Gross margin	11,031	14,050	36,808	4
Selling, general and administrative expenses	7,079	9,013	22,551	2

Operating income	3,952	5,037	14,257	2
Interest expense	127	540	631	
Earnings before income tax expense	3,825	4,497	13,626	1
Income tax expense	1,491	1,765	5,314	
Net earnings	$ 2,334	$ 2,732	$ 8,312	$ 1
Earnings per share of common stock				
Basic	$ .24	$ .28	$ .87	$
Diluted	$ .24	$ .28	$ .86	$
Shares used in computing earnings per share				
Basic	9,573	9,701	9,573	
Diluted	9,674	9,851	9,691	

See accompanying notes to condensed consolidated financial statements.

Condensed Consolidated Balance Sheets (unaudited)
Chromcraft Revington, Inc.
(In thousands)

	Sept. 29, 2001	Sept. 30, 2000	Dec. 31 2000
Assets			
Cash	$ -	$ -	$ 4
Accounts receivable	27,291	33,582	25,5
Inventories	47,691	58,423	55,3
Other assets	3,336	3,593	3,4
Current assets	78,318	95,598	84,8
Property, plant and equipment, net	42,705	44,015	44,7
Intangibles and other assets	29,103	30,831	30,5
Total assets	$ 150,126	$ 170,444	$ 160,0

Liabilities and Stockholders' Equity			
Accounts payable	$ 6,669	$ 9,212	$ 6,4
Accrued liabilities	14,342	16,825	13,6
Revolving credit facility	-	26,000	
Current liabilities	21,011	52,037	20,1
Revolving credit facility	-	-	19,2
Other long term liabilities	10,558	11,456	10,4
Total liabilities	31,569	63,493	49,8
Stockholders' equity	118,557	106,951	110,2
Total liabilities and stockholders' equity	$ 150,126	$ 170,444	$ 160,0

See accompanying notes to condensed consolidated financial statements.

Condensed Consolidated Statements of Cash Flows (unaudited)
Chromcraft Revington, Inc.
(In thousands)

	Nine Months Ended	
	Sept. 29, 2001	Sept. 30, 2000
Operating Activities		
Net earnings	$ 8,312	$ 11,515
Adjustments to reconcile net earnings to net cash provided by operating activities		
Depreciation and amortization	4,514	4,662
Deferred income taxes	443	(41)
Changes in assets and liabilities		
Accounts receivable	(1,739)	(4,008)
Inventories	7,688	(7,973)
Accounts payable and accrued liabilities	1,000	1,986
Other	35	1,020
Cash provided by operating activities	20,253	7,161
Investing Activities		
Capital expenditures	(1,509)	(3,322)
Proceeds from disposals of property, plant and equipment	15	47
Cash used by investing activities	(1,494)	(3,275)

Financing Activities		
Net repayment under revolving credit facility	(19,200)	(700)
Proceeds from exercise of stock options	-	111
Repurchase of common stock	-	(4,445)
Cash used by financing activities	(19,200)	(5,034)
Decrease in cash	(441)	(1,148)
Cash at beginning of period	441	1,148
Cash at end of period	$ -	$ -

See accompanying notes to condensed consolidated financial statements.

Notes to Condensed Consolidated Financial Statements (unaudited)
Chromcraft Revington, Inc.

Note 1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statement presentation.

In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine month periods ended September 29, 2001 are not necessarily indicative of the results that may be expected for the year ending December 31, 2001.

The balance sheet at December 31, 2000 has been derived from the audited financial statements at that date but does not include all information and footnotes required by generally accepted accounting principles for complete financial statements.

For further information, refer to the consolidated financial statements and footnotes thereto included in Chromcraft Revington's annual report on Form 10-K for the year ended December 31, 2000.

Note 2. Withdrawal of Purchase Offer from Court Square Capital Limited

On July 17, 2001, Court Square Capital Limited, a unit of Citigroup, notified the Company that it had decided to withdraw its proposal to acquire the issued and outstanding capital stock of Chromcraft Revington, Inc. not owned by Court Square Capital Limited. Under the proposal, holders of Chromcraft Revington's publicly traded common stock would have received cash of $10.30 per share in a transaction to take the Company private. Court Square Capital Limited owns 59.5%

of Chromcraft Revington's common stock.

Note 3. Earnings per Share of Common Stock

Weighted average shares used in the calculation of diluted earnings per share included dilutive potential common shares (stock options) of approximately 101,000 and 118,000 for the three and nine months ended September 29, 2001, respectively, and 150,000 and 133,000 for the three and nine months ended September 30, 2000, respectively.

Certain stock options to purchase shares of common stock were outstanding during the third quarter and first nine months of 2001 and 2000, but were not included in the computation of diluted earnings per share because the options' exercise prices were greater than the average market price of the common shares during

those periods and, therefore, their effect would be antidilutive. Options excluded from the computation of diluted earnings per share were as follows:

	2001		2000	
	Shares	Average Exercise Price	Shares	Average Exercise Price
Third quarter	462,160	$ 12.74	326,060	$ 13.91
First nine months	376,060	$ 13.48	376,060	$ 13.48

Note 4. Inventories

The components of inventories consisted of the following:

	(In thousands)		
	Sept. 29, 2001	Sept. 30, 2000	Dec. 31, 2000
Raw materials	$ 14,701	$ 19,256	$ 17,729
Work in process	8,383	9,401	9,083
Finished goods	27,177	32,490	30,870
Inventories at FIFO cost	50,261	61,147	57,682
LIFO reserve	(2,570)	(2,724)	(2,303)
	$ 47,691	$ 58,423	$ 55,379

Note 5. Property, Plant and Equipment

Depreciation and amortization of property, plant and equipment is provided on a straight-line basis over the estimated useful lives of the assets as follows: buildings and improvements, 15 to 45 years; machinery and equipment, 3 to 12 years; and leasehold improvements, 5 to 10 years.

Note 6. Accrued Liabilities

Accrued liabilities consisted of the following:

	(In thousands)		
	Sept. 29, 2001	Sept. 30, 2000	Dec. 31, 2000
Employee benefit plans	$ 2,391	$ 5,153	$ 4,450
Salaries, wages and commissions	1,688	2,334	1,586
Vacation and holiday pay	1,411	1,513	1,035
Workers' compensation plans	1,134	1,400	1,013
Deferred income taxes	860	280	1,018
Other accrued liabilities	6,858	6,145	4,592
	$ 14,342	$ 16,825	$ 13,694

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

General

Chromcraft Revington designs, manufactures and sells residential and commercial furniture through its wholly owned subsidiaries Chromcraft Corporation, Peters-Revington Corporation, Silver Furniture Co., Inc., Cochrane Furniture Company, Inc. and Korn Industries, Incorporated.

The following table sets forth the results of operations of Chromcraft Revington for the three and nine months ended September 29, 2001 and September 30, 2000 expressed as a percentage of sales.

	Three Months Ended		Nine Months Ended	
	Sept. 29, 2001	Sept. 30, 2000	Sept. 29, 2001	Sept. 30, 2000
Sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of sales	78.9	77.4	77.9	76.0
Gross margin	21.1	22.6	22.1	24.0
Selling, general and administrative expenses	13.5	14.5	13.5	13.8
Operating income	7.6	8.1	8.6	10.2
Interest expense	.3	.9	.4	.8
Earnings before income tax expense	7.3	7.2	8.2	9.4
Income tax expense	2.8	2.8	3.2	3.7
Net earnings	4.5 %	4.4 %	5.0 %	5.7 %

Three and Nine Months Ended September 29, 2001 Compared to Three and Nine Months

Ended September 30, 2000

Consolidated sales for the three months ended September 29, 2001 were $52,282,000, a 15.8% decrease from sales of $62,062,000 for the three months ended September 30, 2000. For the first nine months of 2001, consolidated sales were $166,552,000, a decrease of 17.3% from sales of $201,469,000 for the same period last year. Shipments of occasional, dining room, bedroom, upholstered and commercial furniture were lower during the third quarter and first nine months of 2001 as compared to the corresponding periods of 2000. The decline in sales was primarily due to softness in retail sales as a result of the economic slowdown. The consolidated sales order backlog at September 29, 2001 was lower as compared to September 30, 2000. In general, selling prices for the first nine months of 2001 were slightly higher as compared to the prior year period.

Gross margin as a percentage of sales was 21.1% and 22.1% for the three and nine month periods ended September 29, 2001, respectively, as compared to 22.6% and 24.0% for the three and nine month periods ended September 30, 2000, respectively. The decline in the gross margin percentage for the third quarter and first nine months of 2001 was primarily due to unabsorbed fixed overhead resulting from the lower sales volume.

Selling, general and administrative expenses as a percentage of sales were 13.5% for the three and nine months ended September 29, 2001, as compared to 14.5% and 13.8% for the three and nine months ended September 30, 2000, respectively. The decrease in selling, general and administrative expenses as a percentage of sales for the three months ended September 29, 2001, as compared to the prior year period, was primarily due to lower bad debt expense.

Interest expense during the third quarter and first nine months of 2001 was $127,000 and $631,000, respectively, as compared to $540,000 and $1,531,000 for the same periods last year. The decreased interest expense for 2001 was due to lower average bank borrowings during the period and interest rate reductions.

Chromcraft Revington's effective income tax rate for the three and nine month periods ended September 29, 2001 was 39.0% as compared to 39.2% and 39.3% for the three and nine month periods ended September 30, 2000, respectively. The decrease in the effective tax rate for 2001 was due to lower state income taxes.

Liquidity and Capital Resources

Operating activities provided $20,253,000 of cash during the nine months ended September 29, 2001, an increase of $13,092,000 from the year ago period. The increase in cash flow from operating activities for 2001 was primarily due to a reduction in working capital investment, offset, in part, by lower net earnings. Due to the lower sales volume, accounts receivable increased $1,739,000 during the first nine months of 2001 as compared to an increase of $4,008,000 for the same period last year. Inventories decreased $7,688,000 during the period as compared to an increase of $7,973,000 during the first nine months of last year, reflecting the reduced operating activity.

Investing activities, primarily for capital expenditures, used $1,494,000 of cash during the first nine months of 2001 as compared to $3,275,000 during the same period last year. Chromcraft Revington expects capital expenditures to be less than $3,000,000 for the year ending December 31, 2001.

Financing activities used $19,200,000 of cash during the nine months ended

September 29, 2001 to reduce bank indebtedness. During the first nine months of 2000, financing activities used $4,445,000 of cash to acquire shares of Chromcraft Revington's common stock under a stock repurchase plan and $700,000 to reduce bank indebtedness.

At September 29, 2001, Chromcraft Revington had unused capacity under its bank revolving credit facility, after reduction for outstanding letters of credit, of $45,491,000.

Fourth Quarter 2001 Outlook

Entering the fourth quarter, Chromcraft Revington's incoming orders and backlog were below the year ago levels. Chromcraft Revington anticipates that fourth quarter earnings per share on a diluted basis will be between $.18 and $.23, as compared to $.41 last year.

New Financial Accounting Standards Board Statements

The Financial Accounting Standards Board (FASB) recently issued Statement No. 141, "Business Combinations" and Statement No. 142, "Goodwill and Other Intangible Assets." Statement No. 141 requires that the purchase method be used for all business combinations initiated after June 30, 2001. Statement No. 142 requires, among other things, that goodwill no longer be amortized to earnings, but instead be reviewed periodically for impairment. The amortization of goodwill ceases upon adoption of Statement No. 142 on January 1, 2002. As of the date of adoption, Chromcraft Revington expects to have unamortized goodwill of $28,180,000, which will be subject to the transition provisions of Statements 141 and 142. Amortization expense related to goodwill was approximately $1,248,000 and $978,000 for the year ended December 31, 2000 and the nine months ended September 29, 2001, respectively. Chromcraft Revington is currently evaluating the impact of these Statements on its financial statements.

Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995

Certain matters included in this discussion are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Certain forward-looking statements are contained in "Management's Discussion and Analysis of Financial Condition and Results of Operations." These forward-looking statements can be generally identified as such because the context of the statements includes words such as "plans," "may," "anticipates," "estimates" and "expects" or words of similar import. All forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those reported or expected as of the date of this report. Among the risks and uncertainties that could cause actual results to differ materially from those reported or anticipated are (i) general economic conditions, (ii) cyclical nature of the furniture industry, and (iii) competition in the furniture industry.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Borrowings under Chromcraft Revington's bank credit facility bear interest at a variable rate and, therefore, are subject to changes in interest rates. The impact of an interest rate change is not considered material.

Part II. Other Information

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

None

(b) Reports on Form 8-K

On July 18, 2001, Chromcraft Revington filed a Current Report on Form 8-K reporting that the Company had received notice from Court Square Capital Limited ("Court Square"), a unit of Citigroup, that Court Square had withdrawn its proposal to acquire the issued and outstanding capital stock of Chromcraft Revington not owned by Court Square and its affiliates.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, Chromcraft Revington, Inc. has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Chromcraft Revington, Inc.

(Registrant)

Date: November 13, 2001

/s/ Frank T. Kane

Frank T. Kane
Vice President - Finance
(Duly Authorized Officer and
Chief Financial Officer)